

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF MEDICAL AND ANCILLARY  
MEDICAID CLAIMS FOR 21 TO 64 YEAR OLD  
RESIDENTS OF PRIVATE PSYCHIATRIC  
HOSPITALS THAT ARE INSTITUTIONS FOR  
MENTAL DISEASES IN CALIFORNIA DURING  
THE PERIOD JULY 1, 1997 THROUGH  
JANUARY 31, 2001**



**JANET REHNQUIST**  
Inspector General

**DECEMBER 2002**  
**A-09-02-00079**

# ***Office of Inspector General***

**<http://oig.hhs.gov>**

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

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The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

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DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

Office of Audit Services  
Region IX  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102  
(415) 437-8360

Report Number A-09-02-00079

DEC 17 2002

Mr. Stan Rosenstein  
Assistant Deputy Director of  
Medical Care Services  
Department of Health Services  
714 P Street, Room 1253  
Sacramento, California 95814

Dear Mr. Rosenstein,

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General (OIG), Office of Audit Services' (OAS) final report entitled, "Review of Medical and Ancillary Medicaid Claims for 21 to 64 Year Old Residents of Private Psychiatric Hospitals that are Institutions for Mental Diseases in California during the Period July 1, 1997 through January 31, 2001."

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act (see 45 CFR part 5). As such, within 10 business days after the final report is issued, it will be posted on the world wide web at <http://oig.hhs.gov>.

To facilitate identification, please refer to report number A-09-02-00079 in all correspondence relating to this report.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures

cc: Bev Silva, DHS  
Elizabeth Abbott. CMS.

**Department of Health and Human Services**

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# *Notices*

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at <http://oig.hhs.gov/>

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## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.





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Report Number: A-09-02-00079

Mr. Stan Rosenstein  
Assistant Deputy Director of  
Medical Care Services  
Department of Health Services  
714 P Street, Room 1253  
Sacramento, California 95814

Dear Mr. Rosenstein:

This report provides you with the results of our *Review of Medical and Ancillary Medicaid Claims for 21 to 64 Year Old Residents of Private Psychiatric Hospitals that are Institutions for Mental Diseases in California during the Period July 1, 1997 through January 31, 2001*. This audit is part of our ongoing review of Medicaid billings for patients in institutions for mental diseases (IMD).

The objective of this audit was to determine if the state of California had adequate controls to preclude claiming federal financial participation (FFP) under the Medicaid program when 21 to 64 year old residents of private IMDs received physician services, laboratory and clinic services, and hospital outpatient treatment. Our review covered Medicaid payments for the period July 1, 1997 through January 31, 2001.

Our review disclosed that the state of California substantially complied with federal rules prohibiting claims for FFP under the Medicaid program for medical and ancillary services provided to residents 21 to 64 years old in the state's 26 private psychiatric hospitals that were IMDs.

## BACKGROUND

### *Federal Law and Regulations*

The Medicaid<sup>1</sup> program authorized by title XIX of the Social Security Act (Act), as amended, provides grants to states for furnishing medical assistance to eligible low-income persons. The states arrange with medical service providers such as physicians, pharmacies, hospitals, nursing homes, and other organizations to provide the needed medical assistance. In order to be eligible for FFP, each state must submit an acceptable plan to the Centers for Medicare and Medicaid

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<sup>1</sup> In the state of California, Medicaid is referred to as the Medi-Cal program. In this report, we used the term "Medicaid" to refer to the Medi-Cal program.

Services (CMS). The CMS is responsible for monitoring the activities of the state agency in implementing the Medicaid program under the state plan.

Prior to the enactment of Medicaid in 1965, FFP was not available for payments made on behalf of individuals who were receiving care in IMDs. Until that time, such care was the sole responsibility of the states. When Medicaid was enacted, FFP was made available for the care of institutionalized mental patients who were 65 years and older. The Social Security Amendments of 1972 extended FFP for inpatient psychiatric care to individuals under the age of 21 and, in certain instances, under the age of 22. Consistent with the Act, federal regulations prohibit FFP for services to IMD residents under the age of 65, except for inpatient psychiatric services provided to individuals under the age of 21 and, in some cases, for individuals under the age of 22. [42 CFR 435.1008 and 441.13]

### ***CMS Guidance***

The CMS has consistently provided guidance to states that FFP is not permitted for IMD residents aged 21 through 64. In March 1994, CMS issued guidance to the states regarding the general IMD exclusion:

“...FFP is not available for any medical assistance under title XIX for services provided to any individual who is under age 65 and who is a patient in an IMD unless the payment is for inpatient psychiatric services for individuals under age 21...Under this broad exclusion, no Medicaid payment can be made for services provided either in or outside the facility for IMD patients in this age group.” [HCFA Publication 45-4, sec. 4390]

### ***California Medicaid Program***

The state designated the Department of Health Services (DHS) as the agency responsible for the administration of the Medicaid program in California. The DHS submitted claims for FFP to its Medicaid fiscal intermediary.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

The objective of this audit was to determine if the state had adequate controls in place to preclude the improper claiming of FFP when 21 to 64 year old residents of private psychiatric hospitals received physician services, laboratory and clinic services, and hospital outpatient treatment. Our review covered Medicaid payments for the period July 1, 1997 through January 31, 2001.

We reviewed the state's Medicaid payments for medical and ancillary services as well as Medicaid payments for Medicare deductibles and co-insurance amounts for qualified beneficiaries covered under both Medicare and Medicaid. The source of the Medicaid data was a computerized file of paid claims maintained by the state. The data is subject to periodic CMS

review and is relied upon to support the state's claims for federal funds under the automatic data processing controls for the state's automated system. Except for this limitation, our review was conducted in accordance with generally accepted government auditing standards.

To accomplish our objective, we:

- Reviewed Medicaid law and regulations, and CMS guidelines provided to the state concerning the allowability of FFP claimed under the Medicaid program for 21 to 64 year old residents of psychiatric hospitals that are IMDs;
- Examined and reviewed state and CMS licensing and certification information maintained on private psychiatric hospitals;
- Evaluated the state's controls to prevent it from claiming unallowable FFP under Medicaid for IMD residents aged 21 to 64;
- Obtained computerized paid Medicaid claims data from the state's Medicaid fiscal intermediary for the period July 1, 1997 through January 31, 2001;
- Developed a statistical sampling plan;
- Reviewed Medicaid claims histories for 200 randomly selected residents to determine if medical and ancillary services were paid and claimed for FFP by the state when the patients were residing in 26 private IMDs; and
- Contacted the providers to confirm the purpose of the medical and ancillary services that were paid and claimed by the state when the patients were residing in the private IMDs.

This audit is a continuation of our multi-state review of Medicaid payments for services to IMD residents. We previously reviewed California's controls over hospital inpatient claims for residents of state IMDs.

Our fieldwork was performed at DHS and its Medicaid fiscal intermediary in Sacramento, California. Our audit work was conducted during the period April 2002 through September 2002.

## **RESULTS OF REVIEW**

The state did not have specific computer edits to prevent it from claiming FFP for medical and ancillary services provided to residents aged 21 to 64 of private psychiatric hospitals. The county mental health program's authorization processes, rather than system edits, are relied upon to deny these services when the provider submits authorization requests or claims to the county mental health program.



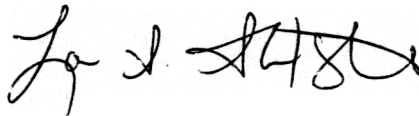
Page 4 – Mr. Stan Rosenstein

Our review disclosed that the state claimed only a minor amount of unallowable FFP under Medicaid for medical and ancillary services provided to residents aged 21 to 64 of private psychiatric hospitals. We, therefore, concluded that the state substantially complied with the federal rules prohibiting it from claiming FFP under the Medicaid program for these services. We have no procedural recommendations for this review.

State officials agreed with our finding, and no formal response will be issued.

To facilitate identification, please refer to report number A-09-02-00079 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand", with a stylized flourish at the end.

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services